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Agenda Item 3

November 15, 2011

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Extension of the Long-Term Care Program Third-Party Administrator Contract with United Health Actuarial Services, Inc.
- II. PROGRAM:** Long-Term Care
- III. RECOMMENDATION:** Staff recommends the Health Benefits Committee (HBC) approve a one-year contract extension until December 31, 2012, with United Health Actuarial Services, Inc. (UHAS).

IV. ANALYSIS:

The CalPERS Long-Term Care (LTC) Program has served its policyholders since 1995. The Program has approximately 154,000 active policies with an invested asset value of approximately \$3.3 billion.

At the August 17, 2010, HBC meeting, the HBC directed staff to enter into contract negotiations with our LTC Program actuary, UHAS. The HBC approved a one-year contract beginning January 1, 2011, with the option for a second one-year extension. The current UHAS contract expires on December 31, 2011. Staff recommends extending the contract through December 31, 2012.

The following items were considered prior to staff's recommendation to the HBC to approve the one-year extension; consistent with the original selection.

- The LTC Program Request for Proposal (RFP) was released on August 31, 2011. The RFP is designed to solicit qualified bidders who are capable of providing full-service LTC Program administration. Final responses are due on November 23, 2011. UHAS will be integral in the transition to a new third-party administrator contract.
- UHAS is currently working with staff and Univita to develop strategies that consider not only asset allocation and premium, but also factors that contribute to financial stabilization such as improvements in existing benefit design and program reporting requirements. These strategies include but are not limited to:

- Identifying value-added benefits that are cost neutral, promote independent living and improve member satisfaction;
 - Identifying benefit designs for the existing population leading to better, more independent care at lower costs; and,
 - Reporting financial and actuarial improvements on a quarterly basis.
- There are no qualified in-house staff that can perform their function. UHAS actuaries support the CalPERS Actuarial Office in the absence of a staff Long-Term Care Actuary.
- UHAS actuaries support the CalPERS Investment Office by running asset allocation and discount rate scenarios and analyzing the health of the Long-Term Care Fund.
- UHAS services have been satisfactory.
- Recruitment is underway to fill this actuarial position. CalPERS Actuarial Staff is currently exploring what is required to increase the State of California actuarial classification salary scale to commensurate with the salaries provided in the private actuarial industry.

Based on these factors, staff recommends the approval of a one-year contract extension in order to best serve the interests of our members and their families. This extension is consistent with the provisions of Board Resolution No. 92-04B-4.

V. RISKS:

If staff's recommendation for a one-year contract extension with UHAS is not approved, the following may be adversely impacted:

- The transition to a potential new third-party administrator.
- The annual actuarial valuation of the LTC Program operations as of June 30, 2012. Specifically, the development of future cash flows required to evaluate the adequacy of current assets and premium levels based on those cash flows. UHAS has successfully completed annual valuations for the Program since 2005.
- Actuarial support to CalPERS actuaries in absence of a staff actuary.
- Actuarial support to the CalPERS Investment Office in absence of a staff actuary.

By not approving a one-year contract extension with UHAS, members, employers and other stakeholders as well as CalPERS staff, may be adversely impacted.

VI. STRATEGIC PLAN:

This item supports CalPERS Strategic Plan, Goal X: Develop and administer qualify, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

Extending the UHAS contract for an additional year beginning January 1, 2012, through December 31, 2012, will be cost-effective, and will enable the LTC Program to maintain current administration efficiencies due to the intimate knowledge and history of the program UHAS possesses; directly and positively impacting LTC Program members.

Staff will continue recruitment efforts for an LTC Program Actuary and reduce the reliance on external consulting actuaries. Should recruitment for this position become unsuccessful, CalPERS Actuarial Staff recommends releasing a Request for Proposal by July 1, 2012.

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